Yale

FINANCIAL REPORT
2009–2010

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Highlights

Five-Year Financial Overview ($ in millions)	2010	2009	Fiscal years 2008	2007	2006
Operating Budget Bottom Line (see page 4)	$ ---	$ ---	$ ---	$ ---	$14.5
Financial Position Highlights (see page 14):					
Total assets	$27,296.1	$25,937.8	$33,864.8	$ 32,165.3	$ 27,711.6
Total liabilities	9,755.4	8,543.3	9,586.5	8,079.5	8,213.3
Total net assets	$17,540.7	$17,394.5	$24,278.3	$24,085.8	$19,498.3
Endowment:					
Net investments, at fair value	$16,504.2	$16,103.5	$22,686.3	$22,364.7	$17,949.1
Total return on investments	8.9%	(24.6%)	4.5%	28.0%	22.9%
Spending from endowment	6.9%	5.2%	3.8%	3.8%	4.1%
Facilities:					
Land, buildings and equipment, net of accumulated depreciation	$ 3,975.8	$ 3,715.1	$ 3,199.6	$ 2,746.4	$ 2,486.9
Disbursements for building projects	407.1	599.6	568.9	373.3	265.1
Debt	$ 4,054.5	$ 3,376.0	$ 3,067.2	$ 1,954.6	$1,954.3
Statement of Activities Highlights (see page 15):					
Operating revenues	$ 2,725.8	$ 2,600.7	$ 2,347.5	$ 2,121.2	$ 1,971.0
Operating expenses	2,572.1	2,493.5	2,314.5	2,108.5	1,963.6
Increase in net assets from operating activities	$ 153.7	$ 107.2	$ 33.0	$ 12.7	$ 7.4

Five-Year Enrollment Statistics	2010	2009	2008	2007	2006
Student Fees:					
Yale College term bill	$ 47,500	$ 46,000	$ 45,000	$ 43,050	$ 41,000
Freshmen Enrollment:					
Class of:	’13	’12	’11	’10	’09
Freshmen applications	26,003	22,817	19,323	21,101	19,451
Freshmen admitted	1,958	1,952	1,911	1,878	1,880
Admissions rate	7.5%	8.6%	9.9%	8.9%	9.7%
Freshmen enrollment	1,307	1,320	1,320	1,315	1,321
Yield	67.8%	68.7%	70.6%	70.9%	71.3%
Total Enrollment:					
Yale College	5,268	5,266	5,300	5,319	5,380
Graduate and professional schools	6,252	6,107	6,064	6,004	6,000

Message from the Vice President for Finance and Business Operations

The University closed the fiscal year with positive operating results while continuing to respond to the challenges arising from the financial crisis. While the University's largest financial asset, the endowment, partially rebounded this year, it will take some time to return to pre-crisis levels. As such, adjustments to financial plans and operating budgets as well as the deferral of capital construction projects continue to be necessary to fully attain financial equilibrium. Departments and schools responded with appropriate expense reductions and have developed plans to manage through these challenging times.

The University's endowment investments increased by $401 million during the year to a total of $16.5 billion, the net of 8.9% endowment returns plus 0.5% endowment giving less endowment spending of 6.9%. Endowment spending represented 41% of the operating revenue in fiscal 2010 compared to 45% in fiscal 2009.

The University's capital spending for fiscal 2010 was budgeted at $625 million, with actual spending of $453 million. While conditions necessitate a slowdown, the University has prioritized spending within the capital program to complete projects already underway and to begin those with significant gift funding in hand, such as the renovation of the Yale Art Gallery and the new campus for the Yale School of Management. Though it is necessary to defer some exciting plans for a time, steady investment in capital maintenance of existing buildings remains a key priority and the use of capital replacement funds set aside in the operating budget for this purpose will continue.

The University's seven-year "Yale Tomorrow" fund raising campaign has now completed its sixth year and, as of June 30, 2010, has received $3.03 billion in gifts and documented commitments, reaching the 86.5% mark toward the campaign goal of $3.5 billion (surpassing a year ahead of schedule the original campaign goal of $3 billion, which was raised to $3.5 billion in June 2008). Because of continued financial turmoil and uncertainty, many donors have remained reluctant to make very large commitments, and so, not surprisingly, the $317.3 million in gifts and new pledges recorded during the fiscal year is the lowest of any year of the campaign. Nonetheless, having broken the $3 billion mark, the University remains confident the campaign is on track to reach $3.5 billion by June 2011. One very encouraging sign is the fact that despite donor skittishness about making large commitments, the $383.5 million received during FY10 in the form of new gifts and payments on commitments was an increase over the prior year and came close to equaling the average amount in new gifts and payments of the six completed years of the campaign. Although FY10 was not a record-breaking year, the continued strong support of Yale alumni and friends remains crucial for achieving the University's strategic goals while mitigating the effects of the economic downturn on the endowment.

Yale has continued to make progress with efforts to reorganize for efficiency and improved delivery of its financial and administrative services to students, faculty and staff. As an example, several previously decentralized information technology resources have been consolidated into the central Information Technology Division so system development efforts can be better coordinated and technology investments leveraged across multiple units. Additionally, desktop service has been made more efficient through deployment of managed desktop software that allows trouble shooting and remediation from remote locations. Efforts to standardize business practices and optimize processes and systems continue as well. In addition, Yale has begun deploying a shared service model to support various back office finance and procurement functions, with a goal of delivering improved services at significantly lower cost. Yale's Shared Business Support Center has launched and is providing services to several units. Once a proven operating model can be demonstrated, the shared service model will be broadened to additional units. The University remains committed to introducing new processes and systems that can adapt to growth in a cost effective manner while providing high-quality support services and improved information and analysis for decision makers.

President Levin recently announced a Sustainability Strategic Plan for 2010 to 2013 that assigns certain goals and responsibilities to various units within the University. The plan encourages involvement of the entire Yale community in initiatives aimed at doing our part to create a more sustainable environment, such as the reduction of paper consumption and printed materials. The University, as a result, has decided not to print the 2009–2010 Yale Annual Report, but we are pleased to make it available on the web at www.yale.edu/fr09-10. As always, we look for your support as we embark on this very important strategic plan.

Though financial challenges remain, Yale University is financially strong and continues to compete in education and research with its accustomed distinction. We appreciate the commitment shown by students, faculty, staff, alumni, donors and all who support the University in maintaining the highest standards for delivering excellence in all aspects of our core mission: the creation, preservation and dissemination of knowledge.

Shauna R. King
Vice President for Finance and Business Operations

Financial Results

Overview

The University manages its operations to achieve long-term financial equilibrium. It is committed to sustaining both the programs and the capital assets (Endowment and facilities) supporting those programs over multiple generations. Endowment income, Yale's largest source of revenue, is allocated to the Operating Budget based on a spending policy that preserves the Endowment asset values for future generations, while providing a robust revenue stream for current programs. Similarly, the Operating Budget increasingly provides the funds needed, through the Capital Replacement Charge (CRC), to replenish the capital base necessary to ensure that buildings are maintained to support current programs.

The Statement of Activities in the audited financial statements is presented in accordance with generally accepted accounting principles (GAAP). GAAP recognizes revenue when earned and expenses when incurred. The Operating Budget is focused more on resources available and used in the fiscal period presented. The Budget does not include certain expenses that are paid out over the long term, such as unused vacation time, and certain revenue that will not be received within the next fiscal year, such as pledged contribution revenue. Another significant difference is that the Operating Budget treats the CRC as an expense rather than the historical cost depreciation expensed in the Statement of Activities. The GAAP financial statements do not present fund balance transfers between the operating, physical, and financial categories, as the Operating Budget does.

A summary of the differences between the Operating Budget presentation and the Statement of Activities is as follows ($ in thousands):

	2010	2009
Operating Budget Bottom Line	$ -	$ -
Operating Budget add to / (use of) fund balances	115,602	68,843
Pledge activity	20,814	(12,565)
Expenses related to long-term liabilities	(56,134)	(49,499)
Capital funding in excess of depreciation	17,337	42,475
Yale Press operating results	-	1,875
Interest hedge realized loss	34,928	14,554
Energy hedge realized loss	17,300	11,439
Funding transfers	3,847	30,069
Increase in net assets from operations per the Statement of Activities	$153,694	$107,191

The Budget presents operating activity by funding source. The category "General Appropriations" includes the cost of education for the University. The category "Other" includes programs supported by endowments and gifts, sponsored research, patient care, and other revenue sources. Endowment and gift activities are separated to facilitate and monitor the University's fiduciary responsibility for compliance with donor intentions for restricted activity. Sponsored research includes the funding from federal, state, and non-governmental entities and the direct costs of the related research. Other activity includes health services provided by the Yale Medical Group as part of Yale's role in the Academic Health Center of Yale-New Haven Health Systems.

Yale University Operating Budget Revenue and Expense

for the year ended June 30, 2010 ($ in thousands)

	General Appropriations	Other	Actual June 30, 2010	Budget June 30, 2010
Revenues:				
Tuition, room and board	$ 433,352	$ 12,286	$ 445,638	$ 438,146
Funded scholarships	(180,219)	(35,038)	(215,257)	(211,667)
Net Tuition, room and board	253,133	(22,752)	230,381	226,479
Sponsored agreement income	157,763	483,598	641,361	585,840
Medical services income	39,375	422,743	462,118	427,858
Contributions	30,692	51,514	82,206	85,102
Allocation of Endowment spending	103,740	1,004,699	1,108,439	1,105,034
Unrestricted and recovery income	658,465	(658,465)	-	-
Other investment income	11,607	14,736	26,343	25,604
Other income	52,653	87,082	139,735	127,568
Transfers	(19,973)	10,733	(9,240)	(8,670)
Total Revenue	1,287,455	1,393,888	2,681,343	2,574,815
Expenses:				
Faculty salaries	185,702	353,823	539,525	522,595
Staff salaries and wages	433,303	239,902	673,205	642,814
Total Salaries and wages	619,005	593,725	1,212,730	1,165,409
Employee benefits	158,061	186,745	344,806	339,212
Total Salaries and benefits	777,066	780,470	1,557,536	1,504,621
Student stipends	28,340	47,737	76,077	69,657
Other expenses	143,585	449,707	593,292	594,540
Interest and capital replacement	267,594	14,664	282,258	309,407
Utilities	70,870	(14,292)	56,578	69,711
Total Expenses	1,287,455	1,278,286	2,565,741	2,547,936
Operating results-budgeted activity	-	115,602	115,602	26,879
Add to fund balances	-	(115,602)	(115,602)	(26,879)
Operating Budget Bottom Line	$ -	$ -	$ -	$ -

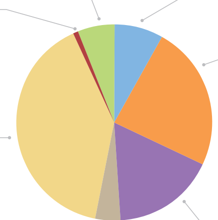
FY10 Operating Budget Results

The University ended the year with an increase to its operating fund balances of $115.6 million. Actual operating revenues were higher than budgeted by 4% and actual operating expenses were higher than budgeted by only 1%. Cost cutting measures initiated in FY 2009 continued through FY 2010 and resulted in overall lower expenses in all areas except research and patient care. Revenues were higher in net tuition, room and board, sponsored agreements, medical services, allocation of Endowment spending, and other income. Grants and contract revenue was significantly higher than budget, as the School of Medicine and the Faculty of Arts and Sciences experienced higher growth in research funding than budgeted. Medical services income was favorable to budget because of continued growth at the Yale Medical Group.

Operating Revenue

As shown in the chart below, the University derives its operating revenue from seven main sources: student income (net of certain scholarships and fellowships), grants and contracts, medical services, Endowment income, other income and investment income, contributions and publications.

Operating Revenue



Student Income, Net

Student income, which includes revenue from tuition, fees, and room and board, net of certain scholarships and fellowships, decreased 1.9% during 2010 and amounted to $225.0 million, or 8% of operating revenues. Of the total amount, tuition and fees accounted for $383.9 million, a 5.4% increase over 2009. Revenue from room and board increased 3.8% to $61.7 million. In accordance with generally accepted accounting principles, student income is presented net of certain scholarships and fellowships, which totaled $220.6 million and $194.3 million for 2010 and 2009, respectively.

During the 2009–2010 academic year, 11,520 students were enrolled at the University; 5,268 were undergraduate students attending programs at Yale College, and 6,252 were pursuing their studies at the Graduate School of Arts and Sciences and the twelve professional schools. (Figures are based on full-time equivalents.)

Students enrolled in Yale College paid $36,500 for tuition and $11,000 for room and board, bringing the total term bill to $47,500 for the 2009-2010 academic year. The increase in the Yale College term bill was 3.3% over the 2008–2009 academic year. Students enrolled in the Graduate School of Arts and Sciences paid $32,500 for tuition, a 3.2% increase over the 2008–2009 academic year.

The University maintains a policy of offering Yale College admission to qualified applicants without regard to family financial circumstances. This “need-blind” admission policy is supported with a commitment to meet in full the demonstrated financial need of all students throughout their undergraduate years.

During the 2009–2010 academic year, 2,936 undergraduates, representing 55.5% of eligible Yale College enrollment, received financial aid. In the Graduate School of Arts and Sciences, 2,623 students, or 98.8% of those eligible, received financial aid. In the professional schools, 2,960 students, or 85.5% of those eligible, received financial aid. In all, 8,519 University students, or 74.7% of total University eligible enrollment, received some form of University-administered student aid in the form of loans, gifts, or a combination of both loans and gifts.

Grant and Contract Income

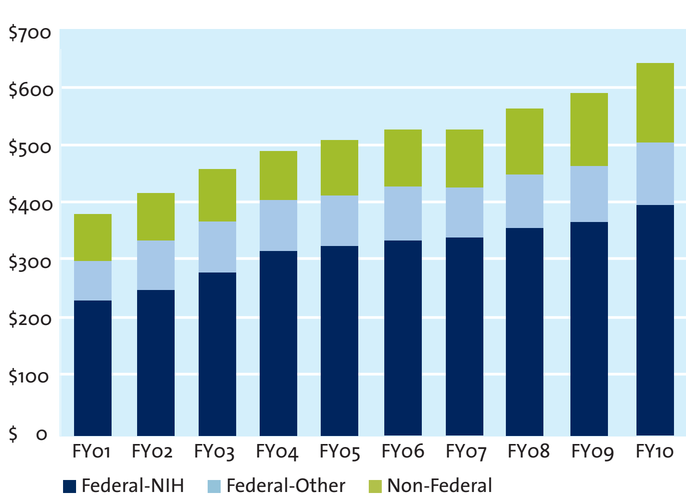
Grant and contract income experienced an 8.9% growth from $589.1 million in 2009 to $641.4 million in 2010. The Yale School of Medicine, which received 74% of the University’s grant and contract income in fiscal 2010, reported an increase of 8.2% for 2010, while the remaining University sectors had an increase of 11.5%.

The federal government funded $510.4 million, or 80% of 2010 grant and contract income, in support of Yale’s research and training programs. The largest federal sponsor was the National Institutes of Health (NIH), which provided revenues of $398.0 million during 2010, an increase of 8.4% over the prior year. Research funding received related to the American Recovery and Reinvestment Act (ARRA), enacted in February 2009, generated $39.5 million of revenue in fiscal 2010, which is 6.2% of the fiscal 2010 revenue. Fiscal 2011 should also have a significant benefit, since $56.7M of unspent funding remains on these stimulus awards. ARRA awards supported major programs and supplemented ongoing research. Two notable examples of ARRA support are the creation of the Yale Center for Genome Analysis as well as a project to develop an Atlas of Human Brain Development. The University also receives significant research support from the National Science Foundation, the Department of Energy, the Department of Defense, and student aid awards from the Department of Education. Nonfederal sources, which include foundations, voluntary health agencies, corporations, and the State of Connecticut, provided an additional $131.0 million in research, training, and other purposes during 2010.

In addition to funding the direct cost of sponsored programs, grant and contract awards generally include reimbursement for a portion of the costs related to research laboratories and other facilities, as well as administrative and support costs incurred for research and other sponsored activities. These reimbursements for facility and administrative costs amounted to $157.8 million in 2010, which is an increase of 9.8% over the prior year. Recovery of facility and administrative costs allocable to federally sponsored programs is recorded at rates negotiated with the University's cognizant agency, the Department of Health and Human Services. Yale's current rate agreement is effective through June 30, 2014.

The primary regulations governing federal grants and contracts are encompassed in Office of Management and Budget Circular A-21, *Cost Principles for Educational Institutions,* and Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations.*

Grant and Contract Income
Ten-year trend analysis ($ in millions)



Medical Services Income

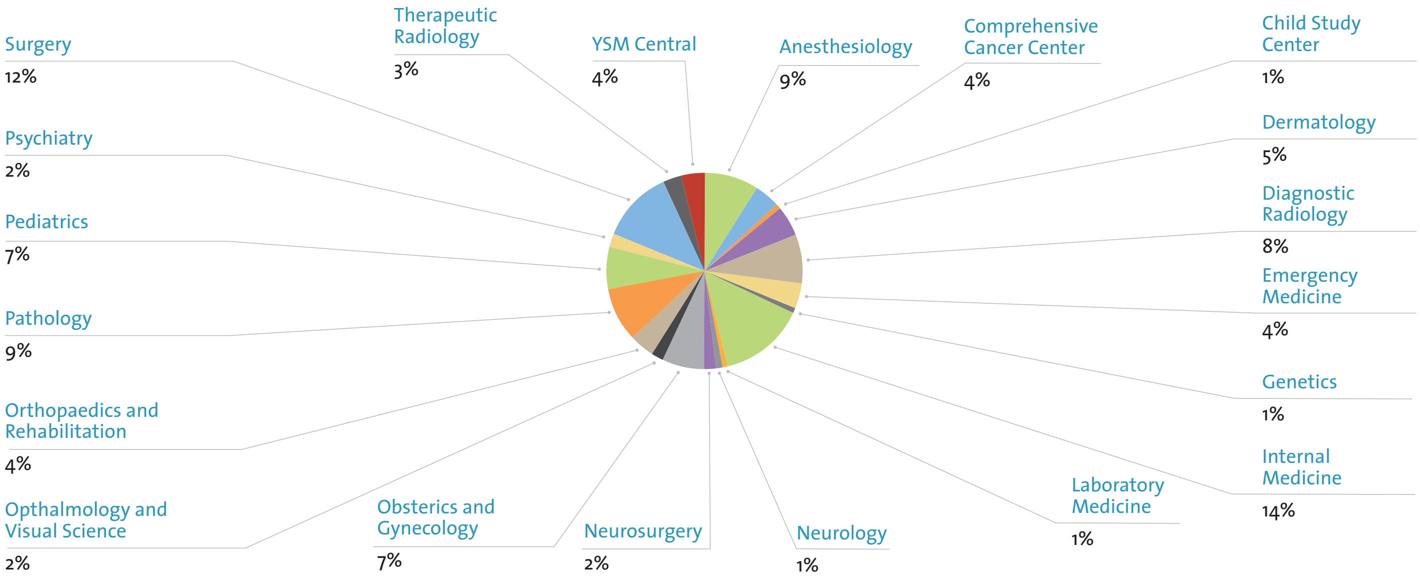
Medical services income totaled $462.1 million in fiscal 2010, an increase of 10.9% from 2009, and represented 17% of the University's operating revenue. The largest portion of this revenue stream (approximately $450.0 million) is derived from patient care services provided by the School of Medicine's Yale Medical Group (YMG), one of the largest academic multi-specialty practices in the country and the largest in Connecticut. YMG is composed of 852 full-time and 127 part-time physicians. Another growing component of medical services income is contracts with affiliated hospitals, including Yale-New Haven Hospital (YNHH) and the West Haven Veterans Administration Medical Center.

New York magazine's 2010 list of the region's top doctors includes 50 Yale Medical Group physicians—practicing in 36 specialties, from dermatology to medical oncology to vascular surgery. "Our strong representation on the *New York* magazine list in so many different specialties confirms that, as Yale Medical Group expands, it is increasingly being seen as the medical care destination of choice in the region," said David J. Leffell, MD, CEO of Yale Medical Group. "We are honored to be able to care for a broader range of patients, including many who might not have thought of coming to Yale before."

The Smilow Cancer Hospital opened in October 2009 representing a major change in YMG's clinical operating model in partnership with Yale-New Haven Hospital. The Yale Cancer Center is southern New England's only comprehensive cancer center designated by the National Cancer Institute (NCI) and one of only 40 in the nation. When the NCI created the first eight comprehensive cancer centers in 1971, Yale's was among them. The Yale Cancer Center is a collaborative venture between Yale School of Medicine and Yale-New Haven Hospital which enables the Center to provide the newest advances and best approaches for the detection, diagnosis and treatment of the disease.

With support from Yale-New Haven Hospital to recruit new faculty in critical areas and by opening new sites of service, several departments saw double-digit increases in medical services revenues including Neurology, Internal Medicine, Ophthalmology, Pathology, Surgery and Therapeutic Radiology. Total YNHH support increased 15% to $115 million. In addition, 45 new faculty FTEs were added to the clinical enterprise in FY10.

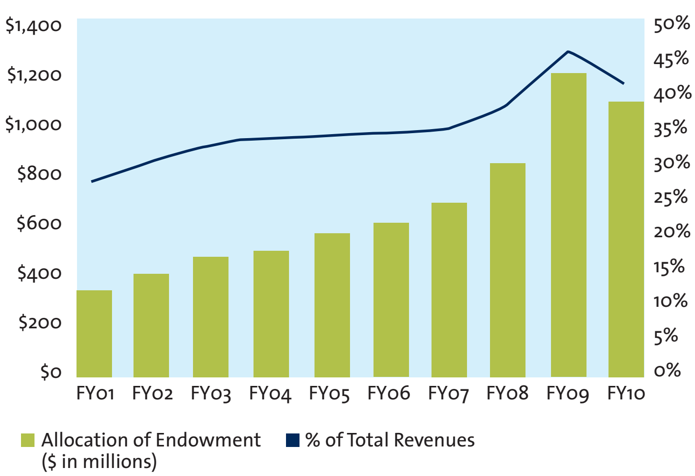
Yale University School of Medicine
FY10 Clinical Income by Department



Allocation of Endowment Spending

Each year a portion of accumulated Endowment investment returns is allocated to support operational activity. This important source of revenue represents 41% of total operating income this year and is the largest source of operating revenue for the University. The level of spending is computed in accordance with an Endowment spending policy that has the effect of smoothing year-to-year market swings. Endowment investment returns allocated to operating activities decreased by 5.0% to $1,104.2 million. Additional information on the Endowment spending policy is provided in the Endowment section of this report and in the footnotes to the financial statements.

Allocation of Endowment Spending
as a percentage of total revenues, Ten-year trend analysis



Other Income and Other Investment Income (Loss)

Other income of $110.4 million includes such items as royalty income, ticket sales, admission revenue, parking revenue, and application and enrollment fees. Other investment income of $49.2 million represents interest, dividends, and gains on non-Endowment investments.

Contributions

Donations from individuals, corporations and foundations represent a vitally important source of revenue for the University to fund current operations as well as long term investments in the physical infrastructure and, in the case of gifts to the Endowment, to provide resources for core activities into the future. The Statement of Activities presents contribution revenue in three categories: operating revenue, donations supporting physical capital (building construction and renovation), and contributions added to the Endowment as financial capital. In aggregate, contributions included in the University Financial Statements total $225.2 million.

The University is in a capital campaign: Yale Tomorrow. FY10 was the fourth year of a five year public campaign (preceded by a two-year silent or nucleus fund phase). The goal is $3.5 billion (the original goal of $3 billion was increased to $3.5 billion in June 2008). As of June 30, 2010, the campaign had raised $3.026 billion in "outright" gifts and new commitments. At the end of FY10, 68.7% of the $3.026 billion raised by the Yale Tomorrow campaign had already been received. For FY10, the total amount of contributions received, as determined by fund raising industry-standard guidelines, totaled $383.5 million – slightly higher than the previous year's total of $367.9 million.

It is important to note that certain gifts commonly reported in fund raising results are not recognized as contributions in the

University Financial Statements. For example, "in-kind" gifts such as works of art and books are not recognized as financial transactions in the University Financial Statements. Grants from private, non-governmental sources (i.e., corporations and foundations) reported as gifts for fund raising purposes are included in the Statement of Activities as grant and contract income. Generally accepted accounting principles require the University to recognize outstanding future donor commitments as institutional receivables. These anticipated future payments (i.e., donor commitments) are counted as part of the Yale Tomorrow campaign total; however, they are not counted as contributions received in accordance with fund raising industry-standard guidelines.

Publications Income

Publications income is primarily generated through Yale University Press (Press), a separately endowed department of the University. The Press published approximately 400 titles in 2010 and has published approximately 8,000 titles in total. Many of these books are winners of prizes, including four Pulitzer Prizes. Its authors are academic and professional people from around the world. Publishing related revenue for the Press was $31.1 million in 2010 and $30.7 million in 2009.

Operating Expenses

Operating expenses totaled $2.6 billion, representing a 3.2% increase for the year. The largest component of expenses – salaries and wages and employee benefits – rose 6.4%. This category of expenses represents 63% of total University operating costs. This increase was in line with the University's overall plans to maintain moderate growth and a competitive position with peer institutions. Faculty salaries and staff compensation increased 5.3% and 2.9% respectively.

The cost of providing employee benefits, including various pension, postretirement health, and insurance plans in addition to Social Security and other statutory benefits, increased by approximately 10.2% to $379.3 million.

Other operating expenditures include services, materials and supplies, and other expenses. These expenditures decreased by approximately 2.9%.

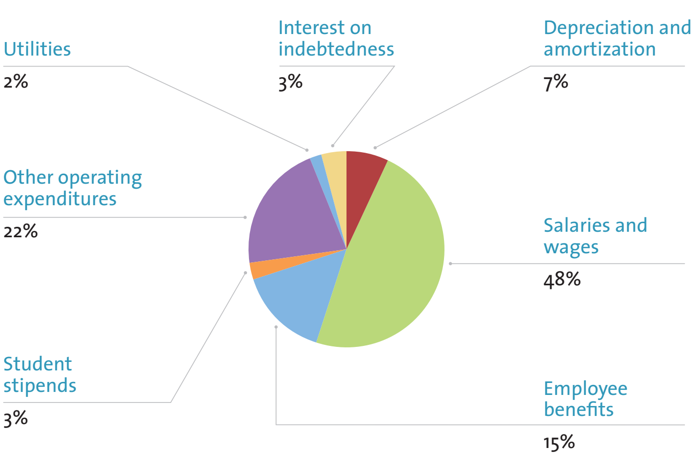
In accordance with generally accepted accounting principles, Yale reports its operating expenses by functional classification in the Statement of Activities. Expenses in each classification increased primarily as a result of the salary and wage increases mentioned above.

The University spends 51% of its operating resources on academic activities including libraries as well as student aid and services. Organized research represents 18% and patient care 16% of spending. Organized research and patient care activities are integral to the academic and learning experiences at the University.

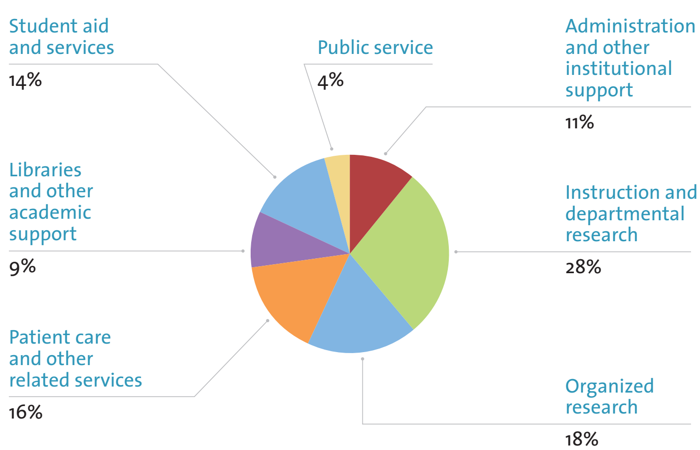
Faculty and Staff Compensation

The University employs 3,227 faculty and an additional 1,024 postdoctoral associates. There are approximately 4,203 managerial and professional staff, and 4,720 unionized clerical, technical, service, and maintenance personnel. The employment figures are fulltime equivalent headcounts as of fall 2009.

Operating Expenses by Natural Classification



Operating Expenses by Functional Classification



Physical Capital

Capital spending on facilities in fiscal year 2010 totaled $407.1 million. This represents a 32% decrease from the 2009 spending level and a significant favorable variance to the 2010 capital budget for facilities. The lower spending level reflects the University's commitment to complete projects in construction and to continue to act prudently when evaluating the need for maintenance and programmatic renovations while adjusting to lower than expected available resources. The capital plan will continue at a slower pace until greater funding becomes available.

The largest share of the University's capital spending in 2010, approximately one-third, was used to fund Administrative Building projects already in construction. The new University Health Services Center Building and Science Park Garage were finalized during the 2010 fiscal year. Additional administrative space in the area was renovated and constructed as the University continues to consolidate operations.

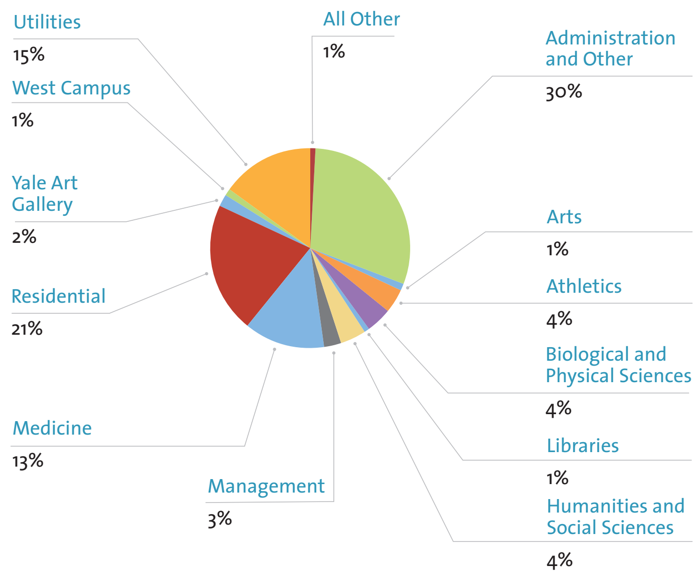
The new building for the University Health Services includes updated health care practice facilities, and additional program spaces related to better operational efficiencies and anticipated growth in the Yale Health Plan membership.

With the completion of Calhoun College in August 2009 and Morse College in August 2010, eleven of the twelve residential colleges will have been renovated. Berkeley, Branford, Davenport, Timothy Dwight, Jonathan Edwards, Pierson, Saybrook, Silliman and Trumbull were all comprehensively renovated in prior years and continue to receive smaller scale renovations and routine maintenance as required. Ezra Stiles College will be fully renovated in August 2011. University planners set aside funds each year to pay for building maintenance, making sure the campus never falls into disrepair. Each residential college is scheduled to be refreshed every three to four years.

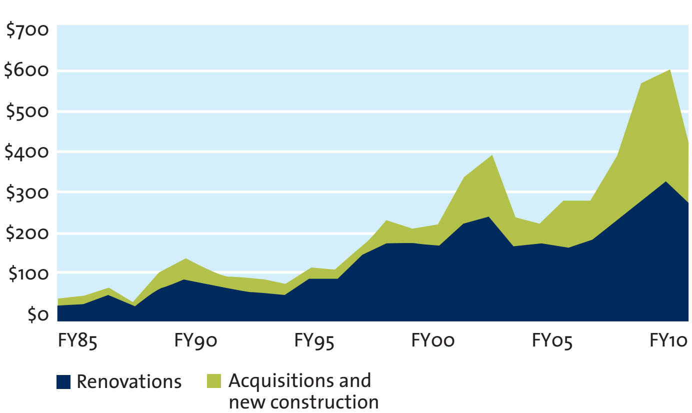
Fifteen percent of the University's capital spending was allocated to large utility projects. The Sterling Power Plant Cogeneration and Expansion project was completed in fiscal year 2010. The project called for the upgrading of the existing chiller/boiler arrangement at the Sterling Power Plant to a cogeneration plant capable of producing electricity and steam. Utilization of cogeneration technology will result in more efficient plant operations, reduced fuel consumption and lower greenhouse gas emissions. The Science Area Chiller Plant was another large project in the design and beginning of construction phase last year, approved to continue in 2010.

Capital spending was also concentrated in the School of Medicine. The School of Medicine accounted for approximately 13% of the University's 2010 capital expenditures; consistent with the 2009 spending percentage. One of the major milestones in the capital plan within the School of Medicine was the opening of the Smilow Cancer Hospital in October of 2009 where the School of Medicine multi-disciplinary oncology practice will now be located. This new Yale-New Haven Hospital building not only provides world-class treatment and patient care but also has state of the art research facilities that will advance cancer teaching and training for the next generation of clinicians and investigators. Two major lab renovations and one research support renovation accounted for 25% of the funds expended this past fiscal year.

Capital Spending by Campus Area



Capital Spending by Year
(in 2010 dollars, in millions)



They include Sterling Hall of Medicine laboratory and research support renovations and as well as renovations in the Hunter Building. The scope of work for these projects included the design and implementation of new wet bench laboratories, support spaces, microscope rooms and administrative offices all with new energy efficient mechanical, electrical and plumbing systems required to operate these facilities. Other significant projects completed include three additional major laboratory renovations, one major office renovation, one major classroom renovation, one additional major research support renovation, and multiple capital maintenance and clinical facility projects.

Design and site work was begun to build a new campus for the School of Management. The new 236,000 square foot building will accommodate the growing community and expanded programs as well as facilitate new teaching methodologies and learning practices required by the new curriculum. Over $11 million was spent in fiscal year 2010 for this project.

The University's ambitious renovation and building plans were funded by a combination of gifts, debt and, increasingly, funds from the operating budget. The University continues to rely heavily on the extraordinary generosity of its alumni/ae and friends. Gifts for facilities in 2010 totaled $62 million. The University has been the beneficiary of an outstanding response from donors. The residential college renovations, the School of Management Campus, the Yale University Art Gallery, the Cullman-Heyman Tennis Center, Calhoun College, Ingalls Rink Renovation, Kenney Family Field Center and Jensen Plaza, Smilow Cancer Hospital, and indeed, nearly all of the University's recent major capital projects have been funded at least partially through gifts.

The major source of funding for the capital program is debt provided through the Connecticut Health and Facilities Authority (CHEFA) which allows the University to borrow at tax-exempt rates. This funding source is critical to keeping the cost of funding at lower levels which allows the University to maximize the use of its resources in the fulfillment of its mission of teaching and research. The University borrowed an additional $450 million through CHEFA to finance planned renovation and capital additions. The resulting affirmation of Yale's long term (AAA/Aaa) and short term (A-1 / P-1) ratings were made with the new tax-exempt issuance.

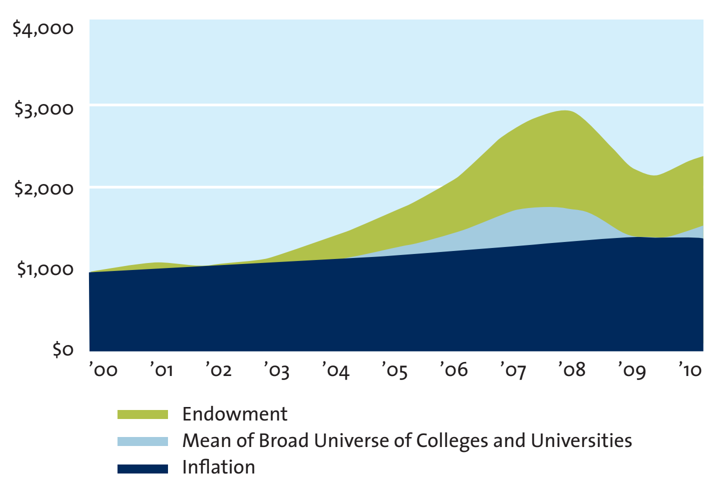
Endowment

The Endowment provides the largest source of support for the academic programs of the University. To balance current and future needs, Yale employs investment and spending policies designed to preserve Endowment asset values while providing a substantial flow of income to the Operating Budget. At June 30, 2010, net assets in the Endowment totaled approximately $16.6 billion, after the allocation of Endowment spending of $1.1 billion to the Operating Budget during the year.

Investment Performance

For the fiscal year ended June 30, 2010, the Endowment earned an 8.9% investment return. During the past decade, the Endowment earned an annualized 8.9% return, which added $7.9 billion relative to the mean return of a broad universe of colleges and universities.

Growth of $1,000 Invested in the Yale Endowment
2000 – 2010



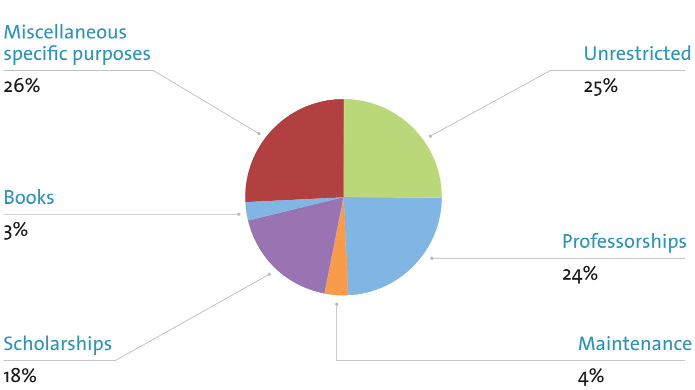
Endowment Spending

The Endowment spending policy, which allocates Endowment earnings to operations, balances the competing objectives of providing a stable flow of income to the Operating Budget and protecting the real value of the Endowment over time. The spending policy manages the trade-off between these two objectives by using a long-term target spending rate combined with a smoothing rule, which adjusts spending in any given year gradually in response to changes in Endowment market value.

The target spending rate approved by the Yale Corporation currently stands at 5.25%. According to the smoothing rule, Endowment spending in a given year sums to 80% of the previous year's spending and 20% of the targeted long-term spending rate applied to the market value two years prior. The spending amount determined by the formula is adjusted for inflation and constrained so that the calculated rate is at least 4.5%, and not more than 6.0% of the Endowment's prior year market value. The smoothing rule and the diversified nature of the Endowment mitigate the impact of short-term market volatility on the flow of funds to support Yale's operations.

The Endowment provided income of $1.1 billion to current operations in 2010, representing 41% of the University's operating revenues. Ten years ago, Endowment distributions contributed approximately $281 million, or 22% of the budget. Over the past decade, Endowment distributions have increased at an annualized rate of approximately 15%.

Endowment Fund Allocation, Fiscal Year 2010



Asset Allocation

Asset allocation proves critical to successful Endowment performance. Yale's asset allocation policy combines tested theory and informed market judgment to balance investment risks with the need for high returns.

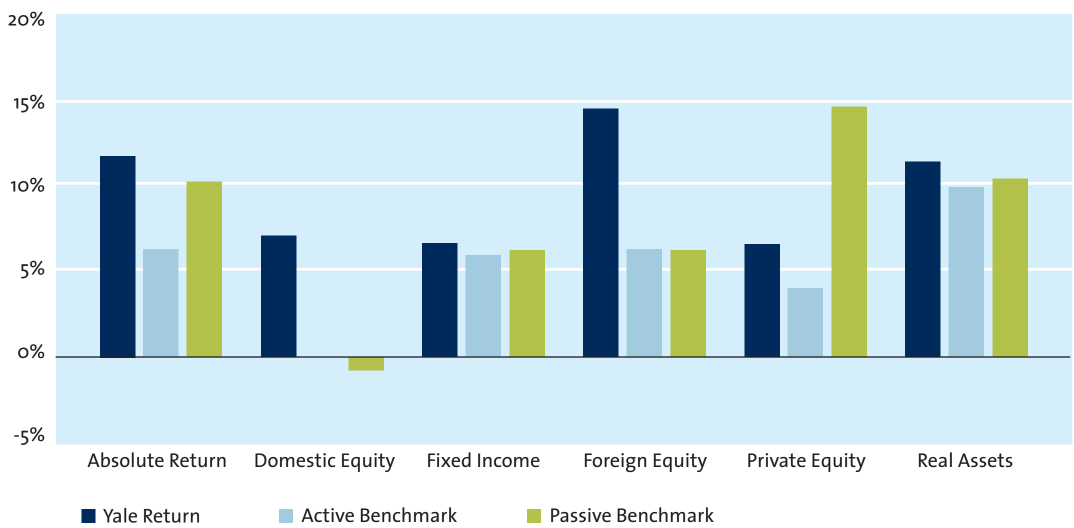
Both the need to provide resources for current operations and the desire to preserve the purchasing power of assets dictate investing for high returns, which leads the Endowment to be weighted toward equity. In addition, the Endowment's vulnerability to inflation directs the University away from fixed income and toward equity instruments. Hence, over 95% of the Endowment is invested in some form of equity, through domestic and international securities, real assets, and private equity.

Over the past twenty years, Yale significantly reduced the Endowment's exposure to traditional marketable securities, reallocating assets to nontraditional asset classes. In 1990, 85% of the Endowment was committed to marketable stocks, bonds, and cash. Today, marketable securities account for approximately 20% of the portfolio, and private equity, absolute return strategies, and real assets represent around 80% of the Endowment.

The heavy allocation to nontraditional asset classes stems from the diversifying power they provide to the portfolio as a whole. Alternative assets, by their nature, tend to be less efficiently priced than traditional marketable securities, providing an opportunity to exploit market inefficiencies through active management. Today's portfolio has significantly higher expected returns and lower volatility than the 1990 portfolio.

Asset Class	June 30, 2010	Current Target
Absolute Return	21.0%	19.0%
Domestic Equity	7.0%	7.0%
Fixed Income	4.0%	4.0%
Foreign Equity	9.9%	9.0%
Private Equity	30.3%	33.0%
Real Assets	27.5%	28.0%
Cash	0.3%	0.0%
Total	100.0%	100.0%

Yale Endowment
Asset classes vs. benchmarks:
Annualized return net of fees, ten years ended June 30, 2010



Active Benchmarks
Absolute Return: CSFB/Tremont Composite
Domestic Equity: Frank Russell Median Manager, U.S. Equity
Fixed Income: Frank Russell Median Manager, Fixed Income
Foreign Equity: Frank Russell Median Manager Composite, Foreign Equity
Private Equity: Cambridge Associates Composite
Real Assets: NCREIF and Cambridge Associates Composite

Passive Benchmarks
Absolute Return: 1-year Constant Maturity Treasury + 6%
Domestic Equity: Wilshire 5000
Fixed Income: BarCap 1-5 Yr Treasury
Foreign Equity: 40% MSCI EAFE Index, 30% MSCI EM Index, 30% Opportunistic Benchmark (custom China/India blend)
Private Equity: University Inflation + 10%
Real Assets: University Inflation + 6%

Summary

Yale's approach to portfolio management relies on the principles of equity orientation and diversification. Equity orientation makes sense for investors with long horizons and diversification allows the construction of portfolios with superior risk and return characteristics. The University's equity-oriented, well-diversified portfolio positions the Endowment for long-term investment success.

PRICEWATERHOUSECOOPERS

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Hartford, CT 06103-3404
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Report of Independent Auditors

To the President and Fellows of
Yale University:

In our opinion, the accompanying statement of financial position and the related statements of activities and of cash flows present fairly, in all material respects, the financial position of Yale University (the "University") at June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the University's 2009 financial statements, and in our report dated October 22, 2009, our opinion on those financial statements mentioned the University's adoption of new guidance with respect to accounting and reporting of endowment funds as well as new guidance with respect to fair value measurements. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

October 21, 2010

Yale University Statement of Financial Position

June 30, 2010 with comparative totals for June 30, 2009 ($ in thousands)

	2010	2009
Assets:		
Cash and cash equivalents	$ 597,034	$ 365,621
Accounts receivable, net	152,741	143,901
Contributions receivable, net	440,904	475,870
Student loans receivable, net	59,863	55,658
Investments, at fair value	21,952,437	21,079,892
Other assets	117,345	101,779
Land, buildings and equipment, net of accumulated depreciation	3,975,783	3,715,095
Total assets	$27,296,107	$25,937,816
Liabilities:		
Accounts payable and accrued liabilities	$ 308,874	$ 294,570
Advances under grants and contracts and other deposits	80,841	80,272
Other liabilities	1,098,543	786,455
Liabilities under split-interest agreements	84,223	82,468
Bonds and notes payable	4,054,534	3,375,991
Liabilities associated with investments	4,093,336	3,887,289
Advances from Federal government for student loans	35,017	36,318
Total liabilities	9,755,368	8,543,363
Net assets:		
Unrestricted	2,746,327	2,981,676
Temporarily restricted	12,202,271	11,903,402
Permanently restricted	2,592,141	2,509,375
Total net assets	17,540,739	17,394,453
Total liabilities and net assets	$27,296,107	$25,937,816

Detail of net assets:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2010	2009
Non-operating:					
Endowment and funds functioning as endowment	$2,406,525	$11,658,329	$2,556,660	$16,621,514	$16,300,488
Student loans	5,473	-	35,481	40,954	39,433
Physical capital investment	772,045	269,080	-	1,041,125	1,055,897
Defined benefit plan deficit	(723,302)	-	-	(723,302)	(481,527)
Operating:					
Accumulated general budget deficit	(70,904)	-	-	(70,904)	(70,904)
Designated and restricted for specific purposes	356,490	274,862	-	631,352	551,066
	$2,746,327	$12,202,271	$2,592,141	$17,540,739	$ 17,394,453

The accompanying notes are an integral part of these financial statements.

Yale University Statement of Activities

for the year ended June 30, 2010 with comparative totals for the year ended June 30, 2009 ($ in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2010	2009
Operating					
Revenues and reclassifications:					
Student income, net	$ 225,039	$ -	$ -	$ 225,039	$ 229,375
Grant and contract income, primarily for research and training	641,361	-	-	641,361	589,062
Medical services income	462,118	-	-	462,118	416,650
Contributions	22,814	79,176	-	101,990	74,733
Allocation of endowment spending from financial capital	340,902	763,286	-	1,104,188	1,162,757
Other investment income (loss)	45,797	3,421	-	49,218	(20,706)
Publications income	31,522	-	-	31,522	30,944
Other income	110,395	-	-	110,395	117,851
Total revenues	1,879,948	845,883	-	2,725,831	2,600,666
Net assets released from restrictions	772,758	(772,758)	-	-	-
Total revenues and reclassifications	2,652,706	73,125	-	2,725,831	2,600,666
Expenses:					
Instruction and departmental research	723,156	-	-	723,156	720,324
Organized research	471,423	-	-	471,423	438,914
Patient care and other related services	411,285	-	-	411,285	386,458
Libraries and other academic support	223,274	-	-	223,274	235,575
Student aid and services	350,620	-	-	350,620	347,477
Public service	116,366	-	-	116,366	124,439
Administration and other institutional support	276,013	-	-	276,013	240,288
Total expenses	2,572,137	-	-	2,572,137	2,493,475
Increase in net assets from operating activities	80,569	73,125	-	153,694	107,191
Non-operating					
Physical capital:					
Contributions	-	38,133	-	38,133	7,886
Investments (loss) gain	(145,151)	1,554	-	(143,597)	(96,126)
Other (decreases) increases	(10,197)	48,014	-	37,817	4,720
Net assets released from restrictions	56,548	(56,548)	-	-	-
(Decrease) increase in net assets from physical capital activities	(98,800)	31,153	-	(67,647)	(83,520)
Financial capital:					
Contributions	264	8,517	76,294	85,075	166,098
Total endowment return, net of management fees	227,037	1,140,152	3,653	1,370,842	(5,533,211)
Allocation of endowment spending to operating	(184,155)	(923,296)	3,263	(1,104,188)	(1,162,757)
Change in funding status of defined benefit plans	(241,775)	-	-	(241,775)	(346,784)
Other decreases	(18,489)	(30,782)	(444)	(49,715)	(30,815)
(Decrease) increase in net assets from financial capital activities	(217,118)	194,591	82,766	60,239	(6,907,469)
Total (decrease) increase in net assets	(235,349)	298,869	82,766	146,286	(6,883,798)
Net assets, beginning of period	2,981,676	11,903,402	2,509,375	17,394,453	24,278,251
Net assets, end of period	$2,746,327	$12,202,271	$2,592,141	$17,540,739	$17,394,453

The accompanying notes are an integral part of these financial statements.

Yale University Statement of Cash Flows

for the year ended June 30, 2010 with comparative totals for the year ended June 30, 2009 ($ in thousands)

	2010	2009
Operating activities:		
Change in net assets	$ 146,286	$(6,883,798)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	192,764	182,250
Unrealized loss on other investments	124,950	99,213
Net Endowment investment (gain) loss	(1,019,779)	5,906,819
Restricted contributions	(129,650)	(173,984)
Other adjustments	11,172	(4,717)
Changes in assets and liabilities that provide (use) cash:		
Accounts receivable	(8,840)	6,735
Contributions receivable	(20,201)	14,478
Other operating assets	239	54,265
Accounts payable and accrued expenses	33,177	21,396
Advances under grants and contracts and other deposits	569	(418)
Other liabilities	312,088	315,981
Net cash used in operating activities	(357,225)	(461,780)
Investing activities:		
Student loans repaid	6,300	6,589
Student loans granted	(10,799)	(10,235)
Purchases related to capitalized software costs and other assets	(25,123)	(45,294)
Proceeds from sales and maturities of investments	10,143,525	11,824,278
Purchases of investments	(9,878,862)	(10,925,415)
Purchases of land, buildings and equipment	(467,929)	(647,645)
Net cash (used in) provided by investing activities	(232,888)	202,278
Financing activities:		
Proceeds from restricted contributions	146,581	129,124
Contributions received for split-interest agreements	5,127	8,425
Payments made under split-interest agreements	(9,817)	(10,630)
Proceeds from long-term debt	1,578,657	310,000
Repayments of long-term debt	(899,725)	(789)
Interest earned and advances from Federal government for student loans	703	1,232
Net cash provided by financing activities	821,526	437,362
Net increase in cash and cash equivalents	231,413	177,860
Cash and cash equivalents at beginning of year	365,621	187,761
Cash and cash equivalents at end of year	$ 597,034	$ 365,621

The accompanying notes are an integral part of these financial statements.

1. Significant Accounting Policies

a. General
Yale University ("the University") is a private, not-for-profit institution of higher education located in New Haven, Connecticut. The University has been granted tax exempt status under section 501(c)(3) of the Internal Revenue Code. The University provides educational services primarily to students and trainees at the undergraduate, graduate and postdoctoral levels, and performs research, training and other services under grants, contracts and other similar agreements with agencies of the Federal government and other sponsoring organizations. The University's academic organization includes Yale College, the Graduate School of Arts and Sciences, ten professional schools and a variety of research institutions and museums. The largest professional school is the Yale School of Medicine, which conducts medical services in support of its teaching and research missions.

b. Basis of Presentation
The financial statements of the University include the accounts of all academic and administrative departments of the University, and affiliated organizations that are controlled by the University.

Financial statements of private, not-for-profit organizations measure aggregate net assets and net asset activity based on the absence or existence of donor-imposed restrictions. Net assets are reported as unrestricted, temporarily restricted and permanently restricted and serve as the foundation of the accompanying financial statements. Brief definitions of the three net asset classes are presented below:

Unrestricted Net Assets – Net assets derived from tuition and other institutional resources that are not subject to explicit donor-imposed restrictions. Unrestricted net assets also include gains on board designated funds functioning as endowment.

Temporarily Restricted Net Assets – Net assets subject to explicit donor-imposed restrictions on the expenditure of contributions or income and gains on contributed assets and net assets from endowments not yet appropriated for spending by the governing board. When temporary restrictions expire due to the passage of time or the incurrence of expenditures that fulfill the donor-imposed restrictions, temporarily restricted net assets are reclassified to unrestricted net assets. Temporarily restricted net assets are established with restricted contributions from donors and restricted income generated from endowments. In addition, temporarily restricted net assets include restricted contributions from donors classified as funds functioning as endowment. Restrictions include support of specific schools or departments of the University, for professorships, research, faculty support, scholarships and fellowships, library and art museums, building construction and other purposes.

Permanently Restricted Net Assets – Permanently restricted net assets include donor restricted endowments and student loan funds.

The University records as permanently restricted net assets the original amount of gifts which donors have given to be maintained in perpetuity ("donor restricted endowment funds"). For financial reporting purposes, all subsequent accumulated gains on such donor restricted endowment funds that are not so classified as permanently restricted net assets are recorded as temporarily restricted net assets until appropriated for expenditure by the Corporation through the application of the endowment spending policy. The Corporation understands its policies on retaining and spending from endowment to be consistent with the requirements of Connecticut law.

The University's measure of operations as presented in the statement of activities includes income from tuition (net of certain scholarships and fellowships) and fees, grants and contracts, medical services, contributions for operating programs, the allocation of endowment spending for operations and other revenues. Operating expenses are reported on the statement of activities by functional categories, after allocating costs for operation and maintenance of plant, interest on indebtedness and depreciation expense.

The University's non-operating activity within the statement of activities includes physical capital and financial capital. Physical capital includes contributions and other activities related to land, buildings and equipment that are not part of the University's measure of operations. Similarly, financial capital includes contributions, investment returns and other activities related to endowment and student loan net assets utilized for long-term investment purposes. Financial capital also encompasses expendable contributions and the related accumulated appreciation that have been designated to function as endowment (i.e., funds functioning as endowment) by the Yale Corporation.

Recognizing the critical importance of maintaining its physical capital over many generations, the University began in the mid-1990s to allocate funds directly from the operating budget to a capital maintenance account. Significant effort has gone into estimating an annual equilibrium level funding target for internal purposes that would be reserved from annual operating funding sources to maintain Yale's facilities in good condition on a consistent basis, thus avoiding deferred maintenance and the need to borrow to meet the ongoing costs of maintaining its facilities. While not an exact science, an estimate of the full capital replacement equilibrium level for 2010 is $176 million (unaudited). In 2010, the University fully funded the capital replacement costs from operating funds and capital gifts and used $204 million to fund renovations of its facilities. Total renovations for the year were $285 million.

c. Cash and Cash Equivalents
Cash and cash equivalents are recorded at cost which approximates fair value and include institutional money market funds and similar temporary investments with maturities of three months or less at the time of purchase. Cash and cash equivalents awaiting investment are reported as investments and totaled $191.9 million and $536.4 million at June 30, 2010 and 2009, respectively. Cash and cash equivalents do not include cash balances held as collateral.

Supplemental disclosures of cash flow information include the following, in thousands of dollars:

	2010	2009
Cash paid during the year for:		
Interest	$134,049	$ 88,200
Noncash investing activities:		
Land, buildings and equipment purchases payable to vendor	$ 38,222	$ 57,095

Included in contributions restricted for physical and financial capital of $123.2 million for 2010 and $173.9 million for 2009 are contributions in the form of investments of $33.1 million and $27.7 million, respectively.

d. Investments

The University's investments are recorded in the financial statements at fair value.

Fair value is a market-based measurement based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering assumptions, a three-tier fair value hierarchy has been established which prioritizes the inputs used in measuring fair value. The hierarchy of inputs used to measure fair value and the primary methodologies used by the University to measure fair value include:

- *Level 1* – Quoted prices for identical assets and liabilities in active markets. Market price data is generally obtained from relevant exchange or dealer markets.
- *Level 2* – Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable.
- *Level 3* – Unobservable inputs in which there is little or no market data, requiring the University to develop its own assumptions.

Assets and liabilities measured at fair value are based on one or more of three valuation techniques which include:

- *Market approach* – Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;
- *Cost approach* – Amount that would be required to replace the service capacity of an asset (i.e., replacement cost); and
- *Income approach* – Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing models, and lattice models).

The fair value of publicly traded fixed income and equity securities is based upon quoted market prices and exchange rates, if applicable. The fair value of direct real estate investments is determined from periodic valuations prepared by independent appraisers.

Fair values for certain private equity, real asset (oil and gas, timber and real estate) and absolute return investments held through limited partnerships or commingled funds are based on the net asset value of such investments as determined by the respective external investment managers, including general partners, if market values are not readily ascertainable. These valuations necessarily involve assumptions and methods that are reviewed by the University's Investments Office.

Investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the University's financial statements.

The University records the cost of managing its endowment portfolio as a decrease in financial capital within the applicable net asset class in the statement of activities. Management fees consist of the internal costs of the Investments Office, outside custodian fees and asset based fees for external investment managers and general partners.

The University invests its endowment portfolio and allocates the related earnings for expenditure in accordance with the total return concept. A distribution of endowment return that is independent of the cash yield and appreciation of investments earned during the year is provided for program support. The University has adopted an endowment spending policy designed specifically to stabilize annual spending levels and to preserve the real value of the endowment portfolio over time. The spending policy attempts to achieve these two objectives by using a long-term targeted spending rate combined with a smoothing rule, which adjusts spending gradually to changes in the endowment market value. An administrative charge is assessed against the funds when distributed.

The University uses a long-term targeted spending rate of 5.25%, with an 80/20 allocation of prior year spending to market value. The actual rate of spending for 2010 and 2009, when measured against the previous year's June 30th endowment market value, was 6.86% and 5.22%, respectively.

The University determines the expected return on endowment investments with the objective of producing a return exceeding the sum of inflation and the target spending rate. Asset allocation is the key factor driving expected return. Yale's asset allocation policy combines tested theory and informed market judgment to balance investment risks with the need for high returns. Both the need to provide resources for current operations and the desire to preserve the purchasing power of assets leads the endowment to be weighted toward equity.

e. Derivatives

Derivative financial instruments in the investment portfolio include interest rate swaps, equity swaps, credit default swaps, commodity swap contracts and currency forward contracts which are recorded at fair value with the resulting gain or loss recognized in the statement of activities.

f. Land, Buildings and Equipment

Land, buildings and equipment are generally stated at cost. Buildings leased under capital leases are recorded at the lower of the net present value of the minimum lease payments or the fair value of the leased asset at the inception of the lease. Annual depreciation is calculated on a straight-line basis over useful lives, or over the lease term for capital leases, ranging from 15 to 50 years for buildings and improvements and 4 to 15 years for furnishings and equipment.

g. Other Assets

Capitalized software and bond issuance costs are included in other assets in the statement of financial position. Capitalized software costs are amortized on a straight line basis over the estimated useful lives of the software, ranging from 5 to 10 years. Bond issue costs are amortized over the term of the related debt.

h. Collections

Collections at Yale include works of art, literary works, historical treasures and artifacts that are maintained in the University's museums and libraries. These collections are protected and preserved for public exhibition, education, research and the furtherance of public service. Collections are not capitalized; purchases of collection items are recorded as operating expenses in the University's financial statements in the period in which the items are acquired.

i. Split-Interest Agreements

The University's split-interest agreements with donors consist primarily of charitable gift annuities, pooled income funds and irrevocable charitable remainder trusts for which the University serves as trustee. Assets are invested and payments are made to donors and/or other beneficiaries in accordance with the respective agreements.

Contribution revenues for charitable gift annuities and charitable remainder trusts are recognized at the date the agreements are established. In addition, the fair value of the estimated future payments to be made to the beneficiaries under these agreements is recorded as a liability. For pooled income funds, contribution revenue is recognized upon establishment of the agreement at the fair value of the estimated future receipts, discounted for the estimated time period until culmination of the agreement.

j. Beneficial Interest in Trust Assets

The University is the beneficiary of certain perpetual trusts and charitable remainder trusts held and administered by others. The estimated fair values of trust assets are recognized as assets and as gift revenue when reported to the University.

k. Tuition and Fees

Tuition and fees revenue, which is included in student income on the statement of activities, is generated from an enrolled student population of approximately 11,500. The undergraduate population of approximately 5,300 is a diverse group attracted from across the United States and from many foreign countries. Foreign students account for approximately 9 percent of the undergraduate population. Net tuition revenue from undergraduate enrollment represents approximately 56 percent of total net tuition revenue in 2010.

The University maintains a policy of offering qualified applicants admission to Yale College without regard to financial circumstance as well as meeting in full the demonstrated financial need of those admitted. Student need in all programs throughout the University is generally fulfilled through a combination of scholarships and fellowships, loans and employment during the academic year. Tuition and fees have been reduced by certain scholarships and fellowships in the amounts of $220.6 million and $194.3 million in 2010 and 2009, respectively.

l. Contributions

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Amounts expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on those contributions is computed using an interest rate that reflects fair value applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not recorded as support until such time as the conditions are substantially met. A facilities and administrative charge is assessed against current use gifts when received.

m. Grant and Contract Income

The University receives grant and contract income from governmental and private sources. In 2010 and 2009, grant and contract income received from the Federal government totaled $510.4 million and $460.8 million, respectively. The University recognizes revenue associated with the direct costs of sponsored programs as the related costs are incurred. Recovery of facilities and administrative costs of Federally sponsored programs is at rates negotiated with the University's cognizant agency, the Department of Health and Human Services. The University and the Federal government are currently operating under an agreement that establishes facilities and administrative cost reimbursement rates under Federal grants and contracts through June 30, 2014.

n. Medical Services Income

The University has agreements with third-party payers, including health maintenance organizations, that provide payment for medical services at amounts different from standard rates established by the University. Medical services income is reported net of contractual allowances from third-party payers and others for services rendered, and further adjusted for estimates of uncollectible amounts.

o. Net Assets Released from Restrictions

Reclassification of net assets is based upon the satisfaction of the purpose for which the net assets were restricted or the completion of a time stipulation. Contributions and net investment return earned, which are restricted, are reported as temporarily restricted support and reclassified to unrestricted when any donor-imposed restrictions are satisfied. Restricted net assets associated with physical capital assets are reclassified to unrestricted net assets when the capital asset is placed in service.

p. Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Significant estimates made by management include the valuation of alternative investments, the estimated net realizable value of receivables, estimated asset retirement obligations, and the actuarially determined employee benefit and self-insurance liabilities. Actual results could differ from those estimates.

q. Implementation of Accounting Standards
During 2010, the University adopted the following accounting and reporting standards:

- Investments in certain entities that calculate Net Asset Value per Share (or its equivalent).
- Disclosures about Derivative Instruments and Hedging Activities.
- Employers' Disclosures about Pension and Other Postretirement Benefits.

r. Summarized 2009 Financial Information
The accompanying 2010 financial statements include selected comparative summarized financial information for 2009. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2009, from which the summarized financial information was derived. In addition, certain amounts have been reclassified to conform to the current year presentation.

2. Investments

The University endowment maintains a diversified investment portfolio with a strong orientation to equity investments and strategies designed to take advantage of market inefficiencies. The University's investment objectives are guided by its asset allocation policy and are achieved in partnership with external investment managers operating through a variety of investment vehicles, including separate accounts, limited partnerships and commingled funds. The University's heavy allocation to non traditional asset classes, such as absolute return, private equity and real assets, generates return potential and diversification in the portfolio.

Net endowment investments are presented below by asset class as of June 30, in thousands of dollars:

	2010	2009
Endowment investments:		
Absolute return	$ 3,496,225	$ 3,926,056
Domestic equities	1,158,862	1,211,076
Fixed-income	368,405	104,784
International equities	1,651,121	1,572,830
Private equities	5,043,472	3,925,410
Real assets	4,580,318	5,165,799
Other	205,765	197,541
Total endowment investments	16,504,168	16,103,496
Non-endowment investments	606,269	531,897
Net Investments, at fair value	$17,110,437	$16,635,393

As described in Note 1d, investments are recorded at fair value. The University endeavors to utilize the best available information in measuring fair value. The following table summarizes the fair values of the University's investments by major type and related liabilities as of June 30, in thousands of dollars.

	Unadjusted Quoted Market Price (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	2010	2009
Investments, at fair value:					
Cash	$ 548,759	$ -	$ -	$ 548,759	$ 1,244,714
Bonds	1,488,380	88,242	-	1,576,622	1,103,796
Common stock	1,523,937	177,020	52,449	1,753,406	2,116,702
Equity investments	-	-	13,668,605	13,668,605	12,726,628
Other investments	-	191,238	258,303	449,541	350,866
Consolidated investment company assets	964,713	2,415,649	575,142	3,955,504	3,537,186
Total investments, at fair value	4,525,789	2,872,149	14,554,499	21,952,437	21,079,892
Liabilities associated with investments:					
Securities sold, not yet purchased	543,399	-	-	543,399	1,086,216
Reverse repurchase agreements	3,740	-	-	3,740	249,829
Other liabilities (See Note 9)	4,590	768,690	253,166	1,026,446	306,090
Consolidated investment company liabilities	875,380	1,616,145	28,226	2,519,751	2,245,154
Total liabilities associated with investments	1,427,109	2,384,835	281,392	4,093,336	3,887,289
Medium-term notes (See Note 9)	748,664	-	-	748,664	557,210
Net investments, at fair value	$2,350,016	$ 487,314	$14,273,107	$17,110,437	$16,635,393

Included in other liabilities associated with investments, above, is a $400 million note, bearing interest at 4.599%, and due October 1, 2014. The University has guaranteed this note and pledged certain partnership interests in the amount of $542 million at June 2010 as collateral for the note.

Based on the legal structure of consolidated entities, their liabilities are not legal obligations of the University and will be settled utilizing the assets of the investment company. The fair value measurements of consolidated investment company assets and liabilities include, in thousands of dollars:

	Unadjusted Quoted Market Price (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	2010	2009
Consolidated investment company assets:					
Bonds	$ 559,524	$ 1,393,913	$ 360,684	$ 2,314,121	$ 2,162,714
Common stock	310,528	13,210	116,862	440,600	895,967
Other investments	94,661	1,008,526	97,596	1,200,783	478,505
Total	$964,713	$ 2,415,649	$ 575,142	$3,955,504	$ 3,537,186
Consolidated investment company liabilities:					
Securities sold, not yet purchased	$ 638,973	$ 74,151	$ -	$ 713,124	$ 547,063
Reverse repurchase agreements	-	1,171,016	6,800	1,177,816	1,155,855
Other Liabilities	236,407	370,978	21,426	628,811	542,236
Total	$ 875,380	$ 1,616,145	$ 28,226	$ 2,519,751	$ 2,245,154

The table below presents the change in fair value measurements for the University's Level 3 investments during the year ended June 30, in thousands of dollars:

	2010	2009
Beginning balance	$13,264,393	$18,600,918
Realized and unrealized gain (loss), net	508,971	(4,818,504)
Purchases (sales), net	446,797	(437,027)
Transfers in (out)	52,946	(80,994)
Ending balance	$14,273,107	$13,264,393

Realized gains and losses are reported in total endowment return, net of management fee. The unrealized portion of gains (losses) in Level 3 reported above that relate to assets held at June 30, 2010 were $874.9 million.

The table below sets forth significant terms of the agreements with certain investment companies.

Asset Class	Fair Value (in 000's)	Remaining Life	Unfunded Commitments (in 000's)	Redemption Terms	Redemption Restrictions
Domestic Equity	1,020,690	No Limit	21,000	Redemption terms range from monthly with 3 days notice to annually with 90 days notice.	Lock-up provisions range from none to 4 years.
Foreign Equity	1,026,134	No Limit	176,000	Redemption terms range from monthly with 15 days notice to closed end structures not available for redemption.	Lock-up provisions range from none to not redeemable.
Absolute Return	3,441,701	No Limit	8,000	Redemption terms range from monthly with 30 days notice to annually with 90 days notice.	Lock-up provisions range from none to 4 years. Eight of twelve funds include side pocket investments.
Private Equity	5,010,590	1 - 10 years	3,021,000	Closed end funds not eligible for redemption	Not redeemable.
Real Assets	4,570,336	1 - 35 years	2,556,000	Closed end funds not eligible for redemption	Not redeemable.

The University has various sources of internal liquidity at its disposal, including cash, cash equivalents and marketable debt and equity securities. If called upon at June 30, 2010, management estimates that it could have liquidated approximately $4.6 billion (unaudited) to meet short-term needs.

The University is required to provide collateral for securities sold, not yet purchased and repurchase agreements. Fixed income securities of $2.0 billion were provided at June 30, 2010 to collateralize these positions initiated by the University and by its consolidated investment companies. University policy with respect to reverse repurchase agreements, including those initiated by consolidated investment companies, is to take possession of the underlying assets. Fixed income securities were obtained in the amount of $680.4 million at June 30, 2010 as collateral for these positions. The market values of the underlying assets are reviewed daily to ensure that the amounts are adequately collateralized and, when warranted, additional collateral is obtained or provided. Nearly all underlying assets and collateral are permitted to be sold or repledged.

The endowment portfolio includes beneficial interests in outside trusts of $120.4 million and $113.8 million at June 30, 2010 and 2009, respectively. Non-endowment investments include CHEFA proceeds available for approved construction and campus renovation projects of $274.8 million and $56.6 million at June 30, 2010 and 2009, respectively.

The following investments held under split-interest agreements are included in the endowment portfolio in the schedule above, in thousands of dollars:

	2010	2009
Charitable gift annuities	$ 98,461	$ 95,247
Charitable remainder trusts	85,405	83,736
Pooled income funds	15,953	16,966
	$199,819	$195,949

The University may employ derivatives and other strategies to (1) manage against market risks, (2) arbitrage mispricings of related securities and (3) replicate long or short positions more cost effectively. Yale does not invest in derivatives for speculation. Yale derivative positions directly held and those held by consolidated investment companies include credit default swap, interest rate swap, equity swap, commodity swap contracts and currency and commodity forward contracts.

	June 30, 2010		2010
	Assets	Liabilities	Gain (Loss)
Financial capital:			
Credit default swaps	$ 315,610	$ 132,282	$ (57,556)
Interest rate swaps	28,847	117,705	(34,813)
Energy swaps	113,010	66,258	8,702
Other	97,381	55,339	(11,850)
Total investing	554,848	371,584	(95,517)
Physical capital:			
Interest rate swaps	22,187	144,525	(127,825)
Energy swaps	-	24,244	(17,385)
Total operating	22,187	168,769	(145,210)
	$577,035	$540,353	$(240,727)

Credit default swaps

Credit default swaps are used to simulate long or short positions that are unavailable in the market or to reduce credit risk where exposure exists. The buyer of a credit default swap is obligated to pay to the seller a periodic stream of payments over the term of the contract in return for a contingent payment upon occurrence of a contracted credit event. As of June 30, 2010, the total notional amount of credit default swap contracts for buy protection amounts to $2.2 billion and the notional amount related to sell protection is $1.8 billion.

Interest rate swaps

Interest rate swaps are used to manage exposure to interest rate fluctuations. The notional amount of contracts that pay based on fixed rates and receive based on variable rates at June 30, 2010 were $1.8 billion. The notional amount of contracts that pay based on variable rates and receive based on fixed rates were $866 million at June 30, 2010.

Energy Swaps

Energy swaps are used in connection with settling planned purchases of energy consumption and adjusting market exposures.

Derivative assets are reported as investments in the statement of financial position and derivative liabilities are reported as liabilities associated with investments. Gains and losses on derivatives used for investing are reported as total endowment return in the financial capital section of the statement of activities and gains and losses related to University debt management and energy consumption are reported as physical capital investment losses.

Derivatives held by limited partnerships and commingled investment trusts in which Yale invests pose no off-balance sheet risk to the University due to the limited liability structure of the investments.

Certain investment transactions, including derivative financial instruments, necessarily involve counterparty credit exposure. Such exposure is monitored regularly by the University's Investments Office in accordance with established credit policies and other relevant criteria. Collateral provided by Yale and its consolidated investment companies related to derivative transactions amounted to $225.8 million at June 30, 2010.

A summary of the University's total investment return as reported in the statement of activities is presented below, in thousands of dollars:

	2010	2009
Investment income	$ 357,934	$ 421,612
Realized and unrealized gain (loss), net of investment management fees	1,012,908	(5,954,823)
Return on Investments	1,370,842	(5,533,211)
Other investment income (loss)	49,218	(20,706)
Total return on investments	$1,420,060	$(5,553,917)

Endowment investment returns totaling $1,104.2 million and $1,162.8 million were allocated to operating activities in 2010 and 2009, respectively, using the spending policy described in Note 1d.

3. Accounts Receivable

Accounts receivable from the following sources were outstanding at June 30, in thousands of dollars:

	2010	2009
Grants and contracts	$ 60,888	$ 55,062
Medical services	51,112	46,930
Affiliated organizations	33,213	24,645
Publications	9,059	4,635
Investment income receivable	6,862	7,634
Other	11,029	20,552
	172,163	159,458
Less: Allowance for doubtful accounts	(19,422)	(15,557)
	$ 152,741	$ 143,901

Medical services receivables are net of an allowance for contractual adjustments of $61.9 million and $60.1 million at June 30, 2010 and 2009, respectively. Collections for patient care services are primarily based on negotiated contracts from managed care companies (65%), Medicare (14%), and Medicaid (10%). In addition, payments are received directly from patients (5%) and commercial insurance and others (6%).

The University and Yale-New Haven Hospital ("the Hospital") are parties to an affiliation agreement that establishes guidelines for the operation of activities between these two separate organizations. These guidelines set forth each organization's responsibility under the common goal of delivering comprehensive patient care services. The University provides professional services from faculty of the Yale School of Medicine and a variety of other administrative and clinical services. The net receivable from the Hospital amounted to $28.6 million and $20.3 million at June 30, 2010 and 2009, respectively. Balances are settled in the ordinary course of business. The University recognized $114.8 million in revenue and incurred $46.9 million in expenses related to activities with the Hospital during the period ended June 30, 2010.

4. Contributions Receivable

Contributions receivable consist of the following unconditional promises to give as of June 30, in thousands of dollars:

	2010	2009
Purpose:		
Endowment	$ 281,795	$ 351,295
Capital purposes	101,480	96,783
Operating programs	137,773	116,049
Gross unconditional promises to give	521,048	564,127
Less: Discount	(32,243)	(39,044)
Allowance for uncollectible accounts	(47,901)	(49,213)
Net unconditional promises to give	$440,904	$ 475,870
Amounts due in:		
Less than one year	$ 155,084	$ 187,633
One to five years	314,528	326,112
More than five years	51,436	50,382
	$ 521,048	$ 564,127

Discount rates used to calculate the present value of contributions receivable ranged from .61 percent to 6.37 percent at June 30, 2010 and .98 percent to 6.37 percent at June 30, 2009.

5. Student Notes Receivable

Student notes and interest receivable at June 30, in thousands of dollars, include:

	2010	2009
Yale student loan program	$ 30,537	$ 23,595
Perkins loan program	29,425	32,532
Other student loans	5,085	4,051
	65,047	60,178
Less: Allowance for doubtful accounts	(5,184)	(4,520)
	$ 59,863	$ 55,658

Student notes receivable include donor-restricted and Federally-sponsored student loans with mandated interest rates and repayment terms subject to significant restrictions as to their transfer and disposition. Yale student loans are made with University funds to meet demonstrated need in excess of all other sources of student loan borrowings. Interest accrues at fixed rates upon loan disbursement.

Amounts received from the Federal government to fund a portion of the Perkins student loans are ultimately refundable to the Federal government and have been reported as refundable advances in the statement of financial position. The recorded value of student loan instruments approximates fair value.

6. Other Assets

Other assets at June 30, in thousands of dollars, include:

	2010	2009
Software costs, net of accumulated amortization	$ 73,378	$ 59,090
Inventories	16,036	17,299
Deferred expense	14,052	12,933
Bond issue costs, net of accumulated amortization	10,396	8,879
Other notes receivable	3,483	3,578
	$ 117,345	$ 101,779

Amortization expense included in operating expenses amounted to $8.2 million and $10.5 million in 2010 and 2009, respectively.

7. Land, Buildings and Equipment

Land, buildings and equipment at June 30, less accumulated depreciation, in thousands of dollars, are as follows:

	2010	2009
Land and real estate improvements	$ 107,580	$ 103,963
Buildings	4,513,750	4,006,225
Buildings under capital leases	61,665	61,665
Equipment	474,884	453,649
	5,157,879	4,625,502
Less: Accumulated depreciation and amortization	(1,684,512)	(1,560,220)
	3,473,367	3,065,282
Construction in progress	502,416	649,813
	$3,975,783	$3,715,095

Depreciation expense included in operating expenses amounted to $180.7 million and $169.6 million in 2010 and 2009, respectively. Amortization expense on capital lease assets amounted to $2.2 million in both 2010 and 2009.

8. Other Liabilities

Other liabilities consist of obligations of the University that will be paid over a longer period of time and consist of the following, in thousands of dollars:

	2010	2009
Employee benefit obligations	$ 945,841	$ 664,964
Compensated absences	68,711	60,020
Asset retirement obligations	36,500	33,000
Financial aid grant obligations	30,283	22,742
Other	17,208	5,729
	$1,098,543	$ 786,455

Included in employee benefit obligations are defined benefit plan liabilities in excess of plan assets. These liabilities amounted to $910.0 million at June 30, 2010 and $636.5 million at June 30, 2009. (See Note 11)

9. Debt Obligations

Bonds, notes and capital lease obligations outstanding at June 30, in thousands of dollars, include:

	Effective Interest Rate 2010	Year of Maturity	Outstanding Balance 2010	2009
Connecticut Health and Educational Facilities Authority (CHEFA) tax-exempt bonds				
Series S	0.31%	2027	$ 135,865	$ 135,865
Series T	2.45%	2029	250,000	250,000
Series U	0.19%	2033	250,000	250,000
Series V	0.16%	2036	200,000	200,000
Series W	5.13%	2010	-	88,134
Series X	3.23%	2037/2042	350,000	350,000
Series Y	3.16%	2035	309,300	309,671
Series Z	4.84%	2042	613,169	613,577
Series 2010A	3.58%	2025/2040/2049	579,436	-
Total CHEFA bonds			2,687,770	2,197,247
Medium-term notes	7.38%	2096	124,566	124,552
Medium-term notes Series B	2.90%	2014	998,219	-
Commercial paper	0.30%	2010	181,420	990,743
Capital leases - buildings	5.75%	2032/2048	59,169	59,854
Other notes payable	7.85%	2020	3,390	3,595
			$ 4,054,534	$ 3,375,991

CHEFA Series 2010A bonds consist of 1) $80 million Series 2010A-1 bonds maturing July 2025 at a fixed interest rate of 5%; 2) $150 million Series 2010A-2 bonds maturing July 2040 at a fixed interest rate of 5%; 3) $150 million Series 2010A-3 bonds maturing July 2049 at a variable interest rate; and 4) $150 million Series 2010A-4 bonds maturing July 2049 at a variable interest rate. The original premium associated with the issuance of approximately $50 million is being amortized over the life of the bonds. Series 2010A-1 and 2010A-2 bonds are subject to an optional redemption in July 2018.

CHEFA Series Z bonds consist of 1) $400 million Series Z-1 bonds at a fixed interest rate of 5%; 2) $100 million Series Z-2 bonds at a fixed interest rate of 5.05%; and 3) $100 million Series Z-3 bonds at a fixed interest rate of 5.05%. Series Z-1, Z-2 and Z-3 bonds mature on July 1, 2042. Series Z-1 bonds are subject to an optional redemption in July 2016. Series Z-2 and Z-3 bonds are subject to an optional redemption in July 2017. The original premium associated with this issuance of $14 million is being amortized over the life of the bonds.

CHEFA Series Y bonds consist of 1) $200 million Series Y-1 bonds at a fixed interest rate of 5%; 2) $50 million Series Y-2 variable rate bonds, currently bearing interest at a daily rate; and 3) $50 million Series Y-3 variable rate bonds, currently bearing interest at a daily rate. Series Y-1, Y-2 and Y-3 bonds mature on July 1, 2035. Series Y-1 bonds are subject to an optional redemption in July 2015. Series Y-2 and Y-3 bonds may be converted to other variable rate modes or to a fixed rate at the discretion of the University. The original premium associated with this issuance of $11 million is being amortized over the life of the bonds.

CHEFA Series X bonds consist of 1) $100 million Series X-1 bonds at a fixed interest rate of 5%, which mature on July 1, 2042, and are subject to an optional redemption on July 1, 2013; 2) $125 million Series X-2 variable rate bonds, currently bearing interest at a weekly rate; and 3) $125 million Series X-3 variable rate bonds, bearing interest at a daily rate, which were converted to a fixed interest rate of 4.85% on May 1, 2008. Series X-2 and X-3 bonds mature on July 1, 2037. Series X-2 bonds may be converted to other variable rate modes or to a fixed rate at the discretion of the University. Series X-3 bonds are subject to an optional redemption in July 2017.

CHEFA Series W bonds were paid off from the proceeds of Series 2010A-1 bonds.

CHEFA Series V bonds bear interest at a daily rate and mature on July 1, 2036. The bonds may be converted from a daily rate period to other variable rate modes or to a fixed rate mode at the discretion of the University.

CHEFA Series U bonds bear interest at a weekly rate. The bonds may be converted from the weekly rate period to other variable rate modes or to a fixed rate mode at the discretion of the University.

On May 1, 2008, the University converted half of CHEFA Series T from a daily mode to a fixed interest rate of 4.7%. Series T-1 bonds bear interest at a weekly rate and are subject to an optional redemption in July 2017.

CHEFA Series S bonds bear interest at a money market municipal rate and are outstanding for varying interest rate periods of 270 days or less. The bonds may be converted from the money market mode to other variable rate modes or to a fixed rate mode at the discretion of the University.

Medium-term notes in the amount of $124.6 million are recorded net of a discount of $434 thousand at June 30, 2010. The notes mature in the year 2096, with a call provision in the year 2026. The bonds bear interest at a fixed rate of 7.38%.

The Yale Corporation approved the expansion of the University's taxable debt program, which includes Medium-term notes and Commercial paper, to a limit of $2 billion to finance approved programs as the need arises. In October 2009, the University issued $1 billion of Medium-term notes Series B. These notes are recorded net of discount of $1.8 million at June 30, 2010. The notes mature in 2014 and bear interest at a fixed rate of 2.9%

Commercial paper consists of notes issued in the short-term taxable market, and is sold at a discount from par. The maturities of individual notes are issued in ranges from one day to no more than one year, and fall on average in a range of thirty to sixty days.

Certain lease agreements entered into by the University qualify as capital leases with obligations of $59.2 million and $59.9 million at June 30, 2010 and 2009, respectively. The agreements call for the University to lease the buildings through 2032 and 2048.

Included in other liabilities associated with investments (see Note 2), is a $400 million note, bearing interest at 4.599% and due October 1, 2014. The University has guaranteed this note and pledged certain partnership interests in the amount of $542 million at June 2010 as collateral for the note.

Total interest expense incurred on indebtedness was $132.2 million and $106.3 million in 2010 and 2009 respectively. Interest capitalized to land, buildings and equipment totaled $13.5 million and $11.9 million in 2010 and 2009, respectively.

Scheduled maturities of the facilities debt obligations, in thousands of dollars, are as follows:

2011	$ 182,417
2012	1,112
2013	1,234
2014	1,364
2015	1,503
2016-2029	511,437
Thereafter	3,355,467
	$ 4,054,534

The series Y-2 and Y-3, X-2, V, U, S, and one-half of the T bonds are subject to tender by bondholders. To the extent all bonds subject to tender could not be remarketed, $935.9 million of bonds scheduled for maturity between 2015 and 2035 would be due when tendered.

The University has revolving credit agreements available totaling $900 million to provide alternative liquidity to support Yale's variable rate demand notes.

The fair value of the University's fixed rate bonds, $2.96 billion at June 30, 2010, is estimated based on quoted market prices for the same or similar issues. The carrying value of commercial paper, variable rate bonds and notes payable approximates fair value because of the variable nature of the interest rates and the short-term maturity of these instruments.

Fair value for debt is determined using Level 2 fair value measurements.

10. Pension Plans — Defined Contribution

The University maintains certain defined contribution plans for faculty and certain staff employees. Participants may direct employee and employer contributions to the Teachers' Insurance and Annuity Association (TIAA) and College Retirement Equities Fund (CREF), as well as other investment options. Pension expense for this plan was $76.2 million and $64.7 million in 2010 and 2009, respectively.

11. Pension and Postretirement Plans — Defined Benefit

The University has a noncontributory, defined benefit pension plan for staff employees as well as a defined benefit faculty retirement incentive plan. The staff pension plan provides payments based on years of participation and the employee's highest annual rate of earnings during the last five years of employment. The faculty plan provides a lump sum payment, based on service and the last three years salary, for tenured faculty who retire at certain ages.

In addition, the University provides postretirement benefits including health benefits based on years of service, life insurance and a pay-out of unused sick time. While the University's subsidy of the cost of comprehensive health care benefits differs among retiree groups, substantially all employees who meet minimum age and service requirements and retire from the University are eligible for these benefits. Non faculty employees are paid 50% of unused sick time and receive life insurance benefits upon retirement from active status.

The following table sets forth the pension and postretirement plans' funded status that is reported in the statement of financial position at June 30, in thousands of dollars:

	Pension		Postretirement	
	2010	2009	2010	2009
Change in benefit obligation:				
Benefit obligation, beginning of year	$ 871,226	$ 804,401	$ 665,005	$ 606,060
Service cost, excluding assumed administration expenses	37,657	34,880	29,824	28,653
Interest cost	44,121	40,170	31,692	30,378
Benefit payments	(23,040)	(24,561)	(21,756)	(18,528)
Assumption changes	115,410	5,889	133,750	7,952
Amendments	15,536	-	-	-
Actuarial loss (gain)	3,207	10,447	(18,877)	10,490
Benefit obligation, end of year	$ 1,064,117	$ 871,226	$ 819,638	$ 665,005
Change in plan assets:				
Fair value, beginning of year	$ 657,924	$ 845,971	$ 241,854	$ 310,552
Actual return on plan assets	64,298	(165,254)	20,497	(76,254)
University contributions	2,051	3,218	34,517	27,219
Benefits and expenses paid	(24,608)	(26,011)	(22,748)	(19,663)
Fair value, end of year	$ 699,665	$ 657,924	$ 274,120	$ 241,854
Funded Status	$ (364,452)	$ (213,302)	$ (545,518)	$ (423,151)

The University has recognized the difference between accrued benefit costs of its defined benefit plans and the funded status for the year ended June 30, 2010 as an adjustment to unrestricted net assets presented as other decreases in the financial capital section of the statement of activities. The components of this adjustment include, in thousands of dollars:

	Pension	Postretirement	Total
Unrecognized net actuarial loss	$ 127,156	$ 123,777	$ 250,933
Amendments	15,536	-	15,536
Amortization	(10,432)	(14,262)	(24,694)
	$ 132,260	$ 109,515	$ 241,775

Actuarial gains or losses and prior service costs resulting from plan amendments are amortized over the average remaining years of service of active participants. The transition obligation for the retiree health plan is being amortized over a remaining period of three years.

Amounts recorded as an adjustment at June 30, 2010 that are expected to be amortized into operating activity during fiscal year 2011 include, in thousands of dollars:

	Pension	Postretirement	Total
Net actuarial loss	$ 657	$ 16,986	$ 17,643
Prior service cost	9,776	1,432	11,208
Transition obligation	-	3,717	3,717
	$ 10,433	$ 22,135	$ 32,568

The University uses a June 30th measurement date for its defined benefit plans.

The benefit obligation disclosed above represents the actuarial present value of future payments to plan participants for services rendered prior to that date, based on the pension benefit formula. In calculating the value, the participants' compensation levels are projected to retirement.

The accumulated benefit obligation for the pension plans was $847.4 million at June 30, 2010 and $682.9 million at June 30, 2009. The accumulated benefit obligation differs from the benefit obligation above in that it does not consider assumptions about future compensation levels. It represents the actuarial present value of future payments to plan participants using current and past compensation levels.

Changes in assumptions during the year resulted in an increase to the pension benefit obligation and an increase to the postretirement benefit obligation at June 30, 2010 as follows, in thousands of dollars:

	Pension	Postretirement	Total
Discount rate	$ 79,658	$ 61,573	$ 141,231
Mortality table	35,752	44,004	79,756
Health care trend rates	-	14,201	14,201
Dependent coverage	-	13,972	13,972
	$ 115,410	$ 133,750	$ 249,160

Amendments to the staff pension plan included the introduction of a minimum retirement benefit for certain participants retiring before January 20, 2002; and the increase of the dollar breakpoints for the retirement benefit and the extension of the annual increase period to 2012, resulting in a $15.5 million increase to the pension benefit obligation at June 30, 2010.

Plan Assets

The defined benefit plan assets are valued utilizing the same fair value hierarchy as the University's investments as described in Note 1d.

The following table summarizes the fair values of investments by major type held by the staff pension plan at June 30, in thousands of dollars:

	Unadjusted Quoted Market Price (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	2010	2009
Investments, at fair value:					
Cash	$ 27,065	$ -	$ -	$ 27,065	$ 107,703
Bonds	70,094	-	-	70,094	-
Common stock	65,080	-	-	65,080	60,923
Equity investments	-	-	416,926	416,926	362,383
Other investments	-	120,500	-	120,500	127,865
Total investments, at fair value	162,239	120,500	416,926	699,665	658,874
Liabilities associated with investments	-	-	-	-	950
Net investments, at fair value	$162,239	$120,500	$416,926	$699,665	$657,924

The following table summarizes the fair values of investments by major type held by the retiree health plan at June 30, in thousands of dollars:

	Unadjusted Quoted Market Price (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	2010	2009
Investments, at fair value:					
Cash	$ 35,907	$ -	$ -	$ 35,907	$ 33,149
Bonds	-	-	-	-	-
Common stock	28,793	-	-	28,793	21,719
Equity investments	-	-	147,043	147,043	124,684
Other investments	-	67,944	-	67,944	67,527
Total investments, at fair value	$ 64,700	$ 67,944	$ 147,043	$ 279,687	$ 247,079

The table below represents the change in fair value measurements for Level 3 investments held by the staff pension plan and the retiree health plan for the plans' year ended June 30, in thousands of dollars:

	Pension	Retiree Health
Beginning balance	$ 362,383	$ 124,684
Realized and unrealized gain, net	72,199	10,796
Purchases (sales), net	(17,656)	11,563
Ending balance	$ 416,926	$ 147,043

The unrealized portion of the gain in Level 3 reported above that relates to assets held at June 30, 2010 by the staff pension plan and the retiree health plan, represents a net gain of $27.9 million and $7.0 million respectively.

The investment objective for the pension and retiree health plans seeks a positive long-term total return after inflation to meet the University's current and future plan obligations.

Asset allocations for both plans combine tested theory and informed market judgment to balance investment risks with the need for high returns.

Plan asset allocations by category at June 30 are as follows:

	Pension		Retiree Health	
	2010	2009	2010	2009
Absolute return	21.6%	20.1%	15.8%	14.6%
Domestic equity	13.9%	15.0%	17.3%	20.7%
Fixed income	10.1%	9.0%	0.0%	0.0%
Foreign equity	18.9%	18.3%	18.7%	15.8%
Private equity	14.2%	11.7%	11.2%	9.2%
Real assets	19.2%	21.3%	26.5%	30.3%
Cash	2.1%	4.6%	10.5%	9.4%

The pension and retiree health long-term rate of return assumption is determined by adding expected inflation to expected long-term real returns of various asset classes, taking into account expected volatility and correlation between the returns of various asset classes.

Contributions

Annual contributions for the pension and retiree health plans are determined by the University considering calculations prepared by the plans' actuary as well as other factors. Expected contributions in fiscal 2011 to the pension plan are $9.6 million and $27.0 million for the retiree health plan.

Benefit Payments

The following estimated benefit payments, which reflect expected future service, are expected to be paid out of the plans, in thousands of dollars:

	Pension	Postretirement
Fiscal year		
2011	$ 32,500	$ 22,700
2012	34,700	25,000
2013	37,400	27,500
2014	40,200	30,000
2015	43,100	32,400
2016-2020	263,500	202,600

The federal government provides the University with a Medicare part D subsidy as reimbursement for certain retiree health benefits paid to plan participants. For fiscal 2010, the subsidy is expected to be approximately $1.4 million, or approximately 6% of retiree health benefits.

Benefit Obligations

Assumptions used in determining the year end obligation of the pension and postretirement plans are:

	2010	2009
Weighted-average discount rate	4.50%	5.00%
Increase in future compensation levels	4.49%	4.49%
Projected health care cost trend rate	8.20%	8.20%
Ultimate trend rate	5.00%	5.00%
Year ultimate trend rate is achieved	2016	2015
Mortality	RP2000CH, generational projection	RP2000CH, projected to 2009

The health care cost trend rate assumption has a significant effect on the amounts reported. For the fiscal year ended June 30, 2010, a one percent change in the health care cost trend rate would cause the postretirement benefit obligation at June 30, 2010 to change by approximately 15 percent and would also cause the sum of the service cost and interest cost components of postretirement expense to change by approximately 17 percent.

Net Periodic Benefit Cost

Net periodic benefit cost for the plans includes the following components, in thousands of dollars:

	Pension		Postretirement	
Net periodic benefit cost for the fiscal year ended	2010	2009	2010	2009
Service cost	$38,878	$36,100	$30,624	$29,253
Interest cost	44,121	40,170	31,692	30,378
Expected return on plan assets	(72,490)	(67,498)	(29,208)	(26,118)
Net amortization				
Transition obligation	-	-	3,717	3,717
Prior service cost	9,776	8,779	1,432	1,432
Net loss	656	428	9,113	9,525
Net periodic benefit cost	$20,941	$17,979	$47,370	$48,187

Assumptions used in determining the net periodic benefit cost of the pension and postretirement plans are:

	2010	2009
Weighted-average discount rate	5.00%	5.00%
Expected long-term rate of return	9.00%	9.00%
Compensation increase	4.49%	4.55%
Health care cost increase	8.20%	8.70%
Ultimate trend rate	5.00%	5.00%
Year ultimate trend rate is achieved	2015	2015
Mortality	RP2000CH, projected to 2009	RP2000CH, projected to 2008

12. Endowment Funds

Yale's endowment consists of approximately 7,000 funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Yale Corporation to function as endowments. The University endowment fund composition by fund type as of June 30, in thousands of dollars, includes:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2010	2009
Donor-restricted endowment	$ (59,769)	$11,404,582	$2,556,660	$13,901,473	$ 13,582,785
Board-designated endowment	2,466,294	253,747	-	2,720,041	2,717,703
Total	$ 2,406,525	$11,658,329	$2,556,660	$16,621,514	$16,300,488

Changes in endowment net assets for the fiscal year ended June 30, in thousands of dollars, were:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2010	2009
Endowment net assets, beginning of period	$2,361,743	$11,463,727	$2,475,018	$16,300,488	$22,846,029
Investment return					
Investment income	59,066	347,590	-	406,656	421,740
Net appreciation (depreciation)	167,971	792,562	3,653	964,186	(5,954,951)
Total investment return	227,037	1,140,152	3,653	1,370,842	(5,533,211)
Contributions	217	8,517	76,144	84,878	166,058
Allocation of endowment spending to operations	(184,154)	(923,296)	2,647	(1,104,803)	(1,162,757)
Other increases (decreases)	1,682	(30,771)	(802)	(29,891)	(15,631)
Endowment net assets, end of period	$ 2,406,525	$11,658,329	$2,556,660	$16,621,514	$16,300,488

From time to time, the fair value of assets associated with permanently restricted endowment funds may fall below the level determined under Connecticut UPMIFA. At June 30, 2010 the total amount of cumulative losses to individual funds in excess of permanently restricted amounts totaled $59.8 million. These losses are classified as unrestricted net assets.

13. Commitments and Contingencies

The University is involved in various legal actions arising in the normal course of activities and is also subject to periodic audits and inquiries by various regulatory agencies. Although the ultimate outcome is not determinable at this time, management, after taking into consideration advice of legal counsel, believes that the resolution of these pending matters should not have a material adverse effect, individually or in the aggregate, upon the University's financial position, activities or cash flows.

Minimum lease commitments at June 30, under agreements to lease space, in thousands of dollars, are as follows:

	Operating Lease Payments	Capital Lease Payments
2011	$ 8,616	$ 8,334
2012	7,496	8,518
2013	5,366	8,565
2014	4,306	8,617
2015	4,035	8,654
Thereafter	46,415	146,830
	76,234	189,518
Executory costs	-	(73,544)
Interest on capital leases	-	(56,805)
	$ 76,234	$ 59,169

The University has outstanding commitments on contracts to construct campus facilities in the amount of $251 million at June 30, 2010. Funding for these projects is expected to come from capital replacement reserves, gifts and future borrowing.

The University has entered into certain agreements to guarantee the debt and financial commitments of others. Under these agreements if the original debt holder defaults on their obligations the University may be required to satisfy all or part of the remaining obligation. The total amount of these guarantees is approximately $170.2 million at June 30, 2010.

14. Subsequent Events

Management has evaluated subsequent events for the period after June 30, 2010 through October 21, 2010 the date the financial statements were available to be issued.

The President and Fellows of Yale University

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Richard Charles Levin, B.A., B. LITT., PH.D

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